

Defense Business Practice Implementation Board

Minutes of Quarterly Board Meeting 20 November 2003:

The Quarterly Meeting of the Defense Business Practice Implementation Board (DBB) opened at 0800 in Room 1E801-1, the Pentagon. Mr. Gus Pagonis, Chairman of the Board, commenced the session and made general comments about the Board's work over the last two years. Mr. Tom Modly, the Executive Director of the Board, highlighted the agenda and the status of the action items from the previous Board meeting. This was followed by a discussion by Mr. Fred Cook about the status of his work related to implementing ROTC programs at top tier schools.

At 0829, the Public Session opened with Mr. Denis Bovin's presentation of interim deliverables from the Fuel Hedging Task Group. This discussion was followed by Mr. Fred Cook's presentation of interim deliverables from the Task Group on Increasing Minority Representation in Senior DoD Ranks.

The public sessions concluded at 0945, and Mr. Tom Modly led a discussion on the implementation status of the Board's reports over the last two years. Upon completion of the update, the Board met with the Deputy Secretary of Defense, Dr. Paul Wolfowitz.

At 1115, the Board was briefed by Mr. John Dowdy, Partner, McKinsey and Company, London on the UK Ministry of Defense supply chain integration efforts. Afterward, during a working lunch, the group was given a briefing on private sector investment activity in Iraq by Mr. Richard Greco, Office of Private Sector Development, Coalition Provisional Authority.

At 1300, a breakout session on ROTC was conducted by Fred Cook and several other Board members and government sponsors in USD (P&R).

The entire Board reconvened at 1415 to discuss prospective tasks for 2004 and to wrap up the session. The meeting concluded at 1500. Detailed meeting minutes follow. These minutes are not to be construed as direct quotes, but rather as paraphrased comments by the indicated participants:

0805 Meeting Opens → Gus Pagonis

- The Chairman of the Board, Mr. Gus Pagonis began the proceedings and welcomed the newest member of the Board, Ms. Barbara Barrett.
- Mr. Gus Pagonis → The Board has cracked the code in meeting with the SEC; working in the Task Groups has worked very effectively. All of the members of the Board will be renewed for another two years unless otherwise notified. The

Board will be meeting with Deputy Secretary of Defense at 1030 and will brief the report card to the Deputy.

- Mr. Gus Pagonis → The big thing I want to discuss is what we want to cover for the next two years. I'd like to keep the number of activities down, to allow us to add things as we go through the year.

0808 Review of the agenda and Previous Action Items → Mr. Tom Modly

- Mr. Tom Modly → We will review the fuel hedging activity, the minority representation study, and the Board's report card.
- Mr. Gus Pagonis → Dr. Wolfowitz is doing a great job and is more accessible to the Board. We will have a brief review of the reports to the Deputy. Dr. Wolfowitz really likes the format.

0818 ROTC at Top Schools → Fred Cook

- Mr. Fred Cook → From 1300 – 1400, the ROTC Task Group will be meeting with Mr. Charlie Abell to explore this initiative further. We have identified a list of target schools. We are going to focus at one or two schools. We will ask Mr. Abell if he will commit to moving out.
- Dr. Zakheim → My son is at Columbia and he would like to see an ROTC program there. I spoke to the Chairman of the Joint Chiefs and he is extremely interested and would like to speak to Mr. Fred Cook. We would like to get on the campus at Harvard. The President of Harvard has showed an interest in this. There is Navy ROTC at Rice.
- Ms. Barbara Barrett → I can help at Cal Tech or Stanford.
- Mr. Gus Pagonis → Other folks, please let me know if you have contacts at these schools.

Public Deliberation: Fuel Hedging

0829 Fuel Hedging → Mr. Denis Bovin

- Mr. Denis Bovin → We are still working on this report and it is not complete. Dr. Zakheim noted that DoD moves the fuel market. He thought that some of the hedging techniques could help the Department to save money. This has been a very good Task Group and we have had active participation. OMB has asked the Department to look at a prototype program that they are to look at. Fuel is a volatile commodity and hedging can help smooth the peaks and valleys. OMB's predictions of price have been off significantly because it is VERY difficult to predict the price of fuel. Hedging tries to give you some control of what you are going to pay.
 - Fuel costs last year exceeded the budget by \$1.6 Billion--if you delay \$1.6 Billion in programs, it has effects in how we can achieve our programs

- Sometimes, we are able to keep surplus and other times a deficit.
 - This is a very condensed estimate, simplified
 - This is not just a question of price and volume, the Department's problem is also unique because we also deliver to many locations, adding another level of complexity
 - There is no group in the Federal government that has done this type of hedging before. We asked airlines and consulting groups to get some insights. We suggest starting with a pilot program.
- Dr. Zakheim → Given the operations in Iraq, we are effecting fuel demand. If we look at this year, the fuel volume it is up. Most of the operations are being performed by the Army and they use relatively less fuel than the Navy or the Air Force. Also, we are also getting a lot of fuel from Kuwait for operations.
 - Mr. Denis Bovin → The futures market for fuel is big enough to support DoD hedging activity. We are focusing on financial hedging not volume hedging. There are many types of hedging activity; active vs. passive hedging, outsourcing vs. in-house hedging. The cost of outsourcing hedging is a bit more expensive--about 10%.
 - Mr. Arnold Punaro → A-76 says it would be better to go inside but you may not have the talent or expertise.
 - Mr. Travis Engen → This is exactly what we do for aluminum, for coke, and other customers. We include a hedge in our price. There is also the question what are the expectations of the owners.
 - Mr. Denis Bovin → United Airlines hasn't done hedging for a number of years because of their financial difficulties. They also believe that it costs more than it's worth for them.
 - We need to have dialog with some OMB folks to see how it affects the government, namely Linda Springer the Comptroller of OMB
 - Dr. Zakheim → What might be optimal for DoD, might not be good for the rest of the government. We must also consider the political cost of such an operation.
 - Dr. Zakheim → GAO will be all over us on this and the IG. This could be a mine field and we have to be careful. The question is whether we should try an experiment in DoD or not.
 - Mr. Denis Bovin → There is precedence at the State level, but no one in the federal government, to our knowledge, is doing this (fuel hedging).
 - Dr. Zakheim → What's a billion to the government? But all the money is spoken for and it's the same effect of taking a billion off the bottom line. 1% is significant. Because of the situation in Iraq, this will cause more volatility in the oil market. That is another reason to consider this now. There is a tax payer effect too, why is the DoD buying at \$5/gallon vs. less in the open market. You are risking headlines.
 - Mr. Bob Hale → You will need a law change even to conduct a pilot project in this area.
 - This will not change the systematic bias with OMB. Maybe OMB could be the right place to hedge the price
 - Over a 10 year period hedging will cost more than the benefit will cost, but it reduces risk

- Mr. Travis Engen → You can do a lot of desk top experiment and simulation modeling. The real issue is that it will cost money but give more stability.
- Dr. Zakheim → The history is that Congress has covered this in one way or another.
- ** Mr. Tom Modly → We are going to do some modeling and simulation to see what the 10 year picture would look like.
- Mr. Gus Pagonis → We also need to take a look at the law. We have done some homework on the law. Hedging helps level out the budget.
- Ms. Barbara Barrett → Vern Smith at George Mason University is a modeling expert and we might be able to tap into his group.
- Mr. Gus Pagonis → The Class 1 railroads might be another area to look at for hedging expertise.

Public Deliberation: Increase Minority Representation in Senior DoD Ranks (Fred Cook)

Increase Minority Representation in Senior DoD Ranks → Mr. Fred Cook

- Mr. Fred Cook → We have an interim report and our private sector review. The military is not required to track minority hiring but they follow the same rules as the civilian workforce in their tracking in the hiring of minorities. We are not reviewing DoD programs but are focusing on industry best practices. We are not critiquing the value of diversity for the DoD.
- Mr. Gus Pagonis → Fred has done a great job in coordinating this effort with Dr. Chu.
- Mr. Fred Cook → We have chosen to compare the representation of minorities in the Flag and SES ranks to the representation of minorities with college degrees because a degree is required to become a Flag or SES person.
 - Military folks have to come from the bottom up. Civilians can come mid-career
 - 882 flag officers in the military, 1171 SES members in the DoD
 - 7873 grade GS-15
 - 47 black flag officers, 5%
 - 511,000 black college degreed males 7.9%
 - 13 Hispanic flag officer, 29000 college educated
- Mr. Neil Albert → This represents this year, have you looked at trends?
- Mr. Fred Cook → No we are looking at a snap shot. The advancement index indicates trends better. There are no goals right now.
- Mr. Arnold Punaro → We should look at the pipeline at the academies and the ROTC programs, we should focus on the pipeline to get the number of qualified candidates up to become eligible for promotion
 - We may have to look at the college graduation pool 20 years ago.
- Col. Carr → The problem is the pipeline. We need to get more Hispanic students in the pipeline.

- Mr. Gus Pagonis → The Army has Historically Black Colleges in its ROTC program.
- Mr. Arnold Punaro → The Marine Corp is 18% Hispanic and we want to improve their representation in the officer rank. They are more in the junior enlisted ranks than in the officer ranks.
- Mr. Fred Cook. The definition of diversity has changed in the private sector. It has become broader, beyond a definition of race and ethnicity used by DoD.
- Mr. Gus Pagonis → I didn't want to get into the statistics. At Sears, when I started there was little diversity. I started a program by hiring folks coming in and found a way to retain and promote folks through the ranks. Where should we go from here?
- Mr. Arnold Punaro → The key is the pipeline. You have to have good retention programs and get the commands and the schools that they need.
- Mr. Travis Engen → Measures are taken at all levels of promotion. Most services resist getting away from merit based program.
- Mr. Bill Navas → We still have a problem at non-statutory (assignment) boards, because that limits the pool of qualified candidates
 - We need to put some rigor in the process, so we pick the right people with the amount of diversity that we need
- Mr. Norm Johnson → Boards are not given quotas, I started as a corpsman. We met with the blue and gold officers and met with them to know what we had to do to get into their positions. Anytime we had an opportunity to meet with these folks, we would but you have to set your own career path. I used to brief the SECDEF on why we did what we did on the Board. We didn't have a quota but we knew we had to do something.
- Mr. Gus Pagonis → We want to know how we want to attack this? Other boards, like command and school boards need to have better representation at those selection boards.
- Mr. Fred Cook → The ROTC initiative can also bring strong minority candidates to the military
 - Keeping them is also key
 - MBA program can also be a vehicle to bring in other strong minority candidates
- Dr. Liz Rodriguez Johnson → In March we issued a report and it tracked with Fred's report. The main points are the same. Diversity management, we looked at Hispanics but the principal applies to other groups. It pulled from GAO, OPM and other reports on military ascensions. Three things have to happen, top management has to make it a priority, you have to get to the people who are doing the hiring, you need to institutionalize this - - it's not an initiative. HR and EEO people and managers have come to the conclusion that the people who are doing the hiring are not prejudiced but they do not take ownership of the problem. You need Tiger teams to visit the areas where the minorities are most underrepresented, who can educate the hiring managers on how and why it's important to increase minority representation - - no quotas. We have to show the advantages to their organization.
- Ms. Gail McGinn → There is a 3rd dimension, the choice that the person makes.

- Mr. Gus Pagonis → Travis will be added to the team. We need to work the SES side also.

Implementation Update

0945 Implementation Update → Tom Modly

- Mr. Gus Pagonis → We will report these findings to the SEC.
- Mr. Neil Albert → the grades in the details are different than in the chart. For example, the Balanced Scorecard → they are starting the integration process and they are moving in the right direction. Overall I would give it a B+/A-
- Mr. Tom Modly → HR – Three of the four tasks were well-received, but many of the big transformation recommendations on SES reform have not been implemented.
- Mr. Neil Albert → BMMP → They have slowed down the process and are breaking it up into smaller pieces and they are taking a look at it one step at a time. I would give it a B-/C+
- Mr. Gus Pagonis → We took implementation out of our name because we depend on the services for implementation. Diane Morales has decided to retire and Mr. Mike Wynne will give that person more authority to oversee the entire process in both TRANSCOM and DLA.
- Mr. Gus Pagonis → The SEC loved the packets because Paul signed it out. I want to keep the momentum going.
- Mr. Gus Pagonis → Dr. Chu sent out a memo starting the MBA program and it will start with a summer intern program. The PBD has been put out for approval.
- Mr. Tom Modly → Supply chain → Implemented recommendations while we were doing the study. Some of the broader recommendations have not been implemented, but some were proposed in the legislation.
- Mr. Tom Modly → Core competencies → They agree that they have to look at this and some of the military spots can change to civilian. There was some resistance. We still don't have the Service Secretaries locked in yet.
- Mr. Gus Pagonis → When we meet with the Deputy Secretary, let Mr. Tom Modly go through these rapidly and other Board members can chime in.

Working Lunch: Presentation on Iraqi private sector investment

1315 Presentation on Iraqi private sector investment → Mr. Richard Greco

- Mr. Richard Greco → The DoD is interested in the diversification of the Iraqi economy. About 60% of their economy is currently based on the production and refinement of oil. Our job is to promote foreign investment in Iraq to help them move beyond the status of a developing country. 70% of the economy was state-owned during the Sadaam regime. We want to develop industrial parks, because security is a concern. There is now a glass company and a logistics company operating in Iraq.

- Mr. Gus Pagonis → have you looked at using the Saudi and Kuwait models? They have significant infrastructure and know how to operate businesses in the region effectively.
- Mr. Arnold Punaro → SAIC has several contracts in Iraq and we have to provide our own security. Security is a significant issue right now. It will also be difficult to promote US investment without a promise from the US government to provide security.
- Mr. Andrew Siegel → There are foreign direct investment funds that can underwrite the outside equity firm.
- Mr. Richard Greco → There are limitations on foreigners owning real estate but there are long term leasing options available (up to 40 years)
- Mr. James Kimsey → Right now the foreign insurance and banking companies are not going into Iraq. This will make development there difficult.

ROTC Breakout Session

1300 ROTC Breakout Session → Mr. Fred Cook

- Mr. Fred Cook → we are interested in re-invigorating ROTC programs at the top schools in the country that DoD left during the Vietnam era.
 - We should broaden to other highly competitive schools. I'd like to identify 5-10 target schools.
 - The Board could identify those schools where they had contacts. We suggested bringing ROTC to Harvard, but Dr. Chu is very concerned that we not jeopardize the program at MIT. However, President Summers is very supportive, so Harvard may be a top candidate, if MIT not dropped.
- Mr. Bill Carr → MIT only a metro ride from Harvard. Could be expensive to have 2 cadres of staff. Yale might be better candidate, since hard to get to. Ivy League strategy good one, but very expensive with full scholarships.
- Mr. Bill Navas → The key is finding the right mix of Officers from the Academies, ROTC and OCS. The right mix in these programs could help improve the pool of qualified minority candidates for advancement.
 - We could do a pilot where DoD asks the Ivy League school for 5 spots and place minority candidates in those spots, giving them the same requirements and commitments as an Academy student. They'd go X-town to ROTC.
- Mr. Mike Dominguez → The question is whether these schools will allow us to pick the candidates, even if they meet their minimum criteria.
- Ms. Anita Blair → There is precedence in Virginia where ROTC trainers travel to another school from their primary duty site, if they have critical mass at the other institution.
- Mr. Charlie Abell → Dr. Chu suggested that Tufts University in the Boston area may be interested in this kind of arrangement and they have an excellent Master of Public Policy program. President may be willing, and school is 45 minutes from MIT.
- Mr. Norm Johnson → We should look at Boston University.

- Mr. Fred Cook → If we set up an ROTC program at Harvard, it must be a net addition to the ROTC program.
- Mr. Mike Dominguez → That would be ideal, but realistically, adding Harvard will require a reduction somewhere else. Can we do an analysis of the probability of success of a Harvard program?
- Mr. Bill Carr → Yes. Military Science “guys” could provide the answer.
- Mr. Bill Navas → What if one Service moved their detachment to Harvard?
- Mr. Mike Dominguez → We send lots of folks to get graduate degrees at Harvard - - why not select minorities for these programs, and they could be role models for ROTC recruits?
- Mr. Charlie Abell → Key is succession planning within the military. We may be able to look at other ROTC programs that are underperforming and redirect those efforts to a top school.
- Mr. Reggie Brown → Lots of unproductive detachments are at HBCUs. Will need a substitution if we add Harvard because of financial constraints. Army would be willing to look at moving its ROTC detachment from MIT to Harvard. However, with respect to minority advancement, key problem is that minorities are not selecting combat arms.
- Mr. Bill Navas → Navy also willing to look at moving its ROTC detachment from MIT to Harvard.
- Mr. Fred Cook → DBB has contacts at Yale, Cal Tech, Stanford, Columbia and Harvard. Which ones does the group agree we should pursue?
- Mr. Charlie Abell (recapping group decision) → DBB will approach Harvard’s President first and if successful, then approach Yale, Columbia and Brown (simultaneously, not sequentially), and military services willing to follow up if approaches are fruitful.

Closeout

1415 Prospective Task Discussion → Mr. Gus Pagonis and Mr. Tom Modly

- Mr. Gus Pagonis → I don’t want anything that we are lukewarm about. We have enough on our plate.
- ** Mr. Gus Pagonis → Mr. Herb Shear does an awful lot of cycle time reduction. He will do that.
- Mr. Gus Pagonis → Table → Transform the Joint Force → Reward innovation and risk. Military takes tremendous risks; I think we are talking about the civilian side. In the military, nobody wants to disagree with their boss. It’s about having the courage to stick your neck out. Our system is not forgiving for someone who speaks out.
- Mr. Tom Modly → Financial management issues → looking at the new architecture, they want to get an idea of what it will take to staff this. Dr. Zakheim would like for us to take a look at that. Mr. Neil Albert would be the logical one to spearhead that.
- Neil Albert → They have process and not an architecture. They don’t really have a strategy to operate against.

- Mr. Tom Modly → Dr. Zakheim would like to know what the service buy-in is on this.
- Mr. Bill Phillips → Unless the Secretary stands behind it, it's not going anywhere.
- Mr. Tom Modly → Financial statement audits → He'd like to know what is possible.
- Mr. Bill Phillips → If Dov is interested, we can do it. If JoAnn is interested, then we should do it. If she's not we shouldn't.
- Mr. Tom Modly → Several general management issues on the list.
- Mr. Gus Pagonis → Investment in Iraq → If anyone wants to provide PA&E the work they are doing in metrics please let me know. One of the metrics that was put out there in Iraq is how we are improving infant mortality. Can you measure that in 5 years? How much money has been spent in that area? If Ken has something specific, he can come back to us.
- Mr. Tom Modly → The Board may want to consider BRAC issues → How do you manage it? The communication strategy and the whole plan.
- Mr. Fred Cook → When we finish a report we never get asked about implementation.
- Mr. Gus Pagonis → Senior management transition knowledge management → there is likely to be another transition with the next election. Michael has a cookie cutter and maybe we can use it.
- ***Mr. Gus Pagonis → Have someone look at what Michael has done and it was a month long program maybe we can put that into a document.
- Mr. Arnold Punaro → In Ken's area, look at better ways to see if a function is overhead or fighting. If you get in there, the DoD may look worse. It was 4 to 1. 55% forces and 45% infrastructure. It almost goes back to the core competencies.
- Mr. Gus Pagonis → ** Mark this one down Arnold → Could we help Dr. Chu keep pressure on the services to get this 380K out of civilian type jobs and how would you transition them. The tough part is the money to pay the civilians who would do that work. Dr. Chu is working with Dr. Zakheim to see what we can do to help that.
- Mr. Tom Modly → The GAO and Mr. David Walker are interested in the single color of money issue.
- Mr. Gus Pagonis → Let's find out what he is talking about.
- Mr., Tom Modly → The GAO is also interested in the lack of accounting for how the supplemental in Iraq is being used.
- Tom Modly → Poor inventory identification in theatre. I gave this to Brad Berkson and he is moving out on this already.

1445 Session Wrap-up → Mr. Gus Pagonis and Mr. Tom Modly

- Mr. Gus Pagonis → Gordon England is behind the Board a 100%. Mr. Roche is behind us and we know that Barbara will be behind us when she heads up the Air Force. 14 January 2004 is the next Board meeting. The only thing that might change this is the SEC. In December, we will send out the dates for next year's meetings. May date is still to be decided.

- Mr. Gus Pagonis → The SEC was meeting once a month, Gordon was asking about those meetings.
- Mr. Tom Modly → In January, we will try to have final deliberations on Fuel Hedging and Fred's Task Group.
- Mr. Gus Pagonis → We have a great Board. Every Board member spoke up at the meeting. Paul felt really good that every board member spoke up. He likes the participation level. We have two openings on the Board but will we only fill them if there is someone that we are really excited about having.